CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Peter R. Orszag, Director

November 6, 2007

Honorable Charles B. Rangel
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

The Congressional Budget Office and the Joint Committee on Taxation (JCT) have reviewed the provisions of H.R. 3996, the Temporary Tax Relief Act of 2007, as ordered reported by the Committee on Ways and Means on November 1, 2007. Among its provisions, the legislation would provide relief from the alternative minimum tax (AMT), extend various expiring provisions for one year, make changes to certain tax administration methods (including repealing the authority to contract with private debt collectors), and raise revenue related to the taxation of income from carried interest and deferred compensation. It also would shift some corporate income tax receipts from 2013 into 2012.

CBO and JCT estimate that the bill would increase revenues by $3.1 billion over the 2008-2012 period and by $2.7 billion over the 2008-2017 period. (Those estimates include reductions in off-budget revenues of $8 million over the 2008-2009 period.) CBO and JCT estimate that, under the bill, direct spending would increase by $2.7 billion over the 2008-2012 period and by $2.3 billion over the 2008-2017 period. The estimated budgetary impact of H.R. 3996 is shown in the attached table.

The provision with the largest effect on revenues would raise the exemption amounts for the AMT and extend the use of nonrefundable credits for one year, through 2007, which JCT estimates would reduce revenues by $50.6 billion in 2008. Also, a set of one-year extensions of expiring provisions, such as the research and experimentation tax credit, would reduce revenues by about $21.0 billion over the 2008-2017 period, JCT estimates. In addition, JCT estimates that reducing an income threshold for the refundable child credit would increase direct spending by $2.8 billion in 2009.

Three provisions account for the bulk of increases in revenues estimated for H.R 3996. First, the bill would delay until 2018 the application of rules enacted in 2004 that pertain to the worldwide allocation of interest expenses, which JCT estimates would increase revenues by $26.2 billion over the 2008-2017 period. In addition, the bill would treat certain income of partners from performing investment management services (called "carried interest") as ordinary income for tax purposes, rather than as capital gains, which JCT estimates would increase revenues by $25.6 billion over the 2008-2017 period. Also, H.R. 3996 would require that certain deferred compensation from nontaxable entities be included in current taxable income, which JCT estimates would increase revenues by $23.9 billion over the 10-year period.

CBO and JCT have determined that the bill contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO has determined that the nontax provision of the bill (section 506) contains no private-sector mandates. JCT has determined that the tax provisions of the bill contain four private-sector mandates: (1) limitations on the applicability of the exclusion of gains on the sale of a principal residence; (2) the requirement that income of partners for performing investment management services be treated as ordinary income; (3) the delay in implementation of worldwide allocation of interest expense until 2018; and (4) the requirement that brokers report customers' basis in securities transactions. Based on information provided by JCT, CBO estimates that the aggregate cost of mandates in the bill would exceed the annual threshold established in UMRA for private-sector mandates ($131 million in 2007, adjusted annually for inflation).

Because section 611(d) (4) of the bill relates to the Old-Age, Survivors, and Disability Insurance program (OASDI) under title II of the Social Security Act, it is excluded from review under UMRA. Therefore, CBO has not reviewed it for intergovernmental or private-sector mandates.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact for this estimate is Zachary Epstein.

Sincerely,

for Robert A. Sunshine

Peter R. Orszag
Director

Enclosure

cc: Honorable Jim McCrery
Ranking Republican

ESTIMATED CHANGES IN DIRECT SPENDING AND REVENUES UNDER H.R. 3996, THE TEMPORARY TAX RELIEF ACT OF 2007

	By Fiscal Year, in Millions of Dollars											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2008-2012	2008-2017
CHANGES IN REVENUES												
Title I: Individual AMT Relief	-52,000	-559	-169	-18	-8	-67	-13	8	15	22	-52,754	-52,788
Title III: One-Year Extenders	-4,724	-7,481	-2,121	-1,624	-1,592	-1,216	-719	-599	-511	-442	-17,540	-21,035
Title VI: Revenue Provisions	4,731	6,978	8,396	8,260	47,447	-32,365	6,758	6,415	12,569	9,128	75,810	78,325
Titles II, IV, and V: Other Provisions	-368	-1,440	-290	-6,280	5,941	-55	7	81	270	357	-2,438	-1,776
Total Changes in Revenues	-52,362	-2,502	5,816	338	51,788	-33,694	6,033	5,905	12,343	9,065	3,079	2,727
On-budget	-52,359	-2,497	5,816	338	51,788	-33,694	6,033	5,905	12,343	9,065	3,087	2,735
Off-budget	-3	-5	0	0	0	0	0	0	0	0	-8	-8
CHANGES IN DIRECT SPENDING												
Refundable Tax Credits												
Estimated Budget Authority	65	2,843	0	0	0	0	0	0	0	0	2,908	2,908
Estimated Outlays	65	2,843	0	0	0	0	0	0	0	0	2,908	2,908
IRS Contracting for Debt Collection												
Estimated Budget Authority	-12	-65	-68	-74	-74	-74	-74	-74	-74	-74	-293	-663
Estimated Outlays	-12	-65	-68	-74	-74	-74	-74	-74	-74	-74	-293	-663
Payment of Tax Receipts on Distilled Spirits												
Estimated Budget Authority	74	19	0	0	0	0	0	0	0	0	93	93
Estimated Outlays	74	19	0	0	0	0	0	0	0	0	93	93
Tax Return Information for the Department of Veterans Affairs												
Estimated Budget Authority	0	-1	0	0	0	0	0	0	0	0	-1	-1
Estimated Outlays	0	-1	0	0	0	0	0	0	0	0	-1	-1
Total Changes in Direct Spending												
Estimated Budget Authority	127	2,796	-68	-74	-74	-74	-74	-74	-74	-74	2,707	2,337
Estimated Outlays	127	2,796	-68	-74	-74	-74	-74	-74	-74	-74	2,707	2,337
NET CHANGE IN THE BUDGET DEFICIT OR SURPLUS												
Net Change in the Deficit or Surplus[a]	52,489	5,298	-5,884	-412	-51,862	33,620	-6,107	-5,979	-12,417	-9,139	-372	-390
On-budget	52,486	5,293	-5,884	-412	-51,862	33,620	-6,107	-5,979	-12,417	-9,139	-380	-398
Off-budget	3	5	0	0	0	0	0	0	0	0	8	8

SOURCES: Congressional Budget Office and Joint Committee on Taxation.

NOTES: Components may not add to totals because of rounding.
AMT = Alternative Minimum Tax
IRS = Internal Revenue Service

a. Negative numbers indicate decreases in deficits (or increases in surpluses); positive numbers indicate increases in deficits (or decreases in surpluses).